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ABSTRACT

As an aid for California school board members, school administrators, and citizens, this handbook provides data on California public schools and an explanation of California school finances. Chapter 1 contains facts about the state's schools and school districts, including size, demography, student population distribution by county, attendance trends, and school spending. In chapter 2, California is compared with other states in terms of per capita income and school expenditures, state and local school spending, teachers, teacher salaries, and student performance on national tests. Chapter 3 describes recent changes in California educational finance, covering the Serrano cases on educational equity, Proposition 13 involving tax limitations, legislative actions on these issues, state and federal categorical aid, and the impacts on school finance levels. Chapter 4 is a basic primer on California school finance, discussing revenue limits and state and federal aid. Changes in state revenue sources are examined in chapter 5. In chapter 6, three private economists comment on California's economic outlook, federal policies, and the implications for school finance. Appendices include a glossary of 63 California school finance terms and an overview of the factors affecting schools, including demographic changes and television. An index is attached. (Author/RW)

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Factbook for School Finance Information

Volume I

EA 015 318

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CSBA

Factbook for School Finance Information

Volume I

A product of the School Finance Information Service

sfis

Summary of Pertinent Finance Facts

to be found in this handbook

More Information to be found on pages:

- Projected ADA growth direction is upward for California public schools — **4-5**
- California per capita personal income rank, national comparison 1971-1981 — no change — California ranks 5th — **8**
- California is now 24th in spending per student, and 48th when school spending is considered relative to per capita personal income — **9,10**
- California was 44th in 1981 in state and local expenditures for all education as a percentage of all government spending — **9,11**
- California has the second largest class sizes in the United States — ranking 49th — **9,12**
- Expenditures for school staff dropped from 3rd in 1971 to 7th in 1981 — **9,12**

Other Pertinent Facts

- Changes in California's population and families which affect the public schools — **54**
- Television as a force affecting children — **54**
- An impressive track record — **55**

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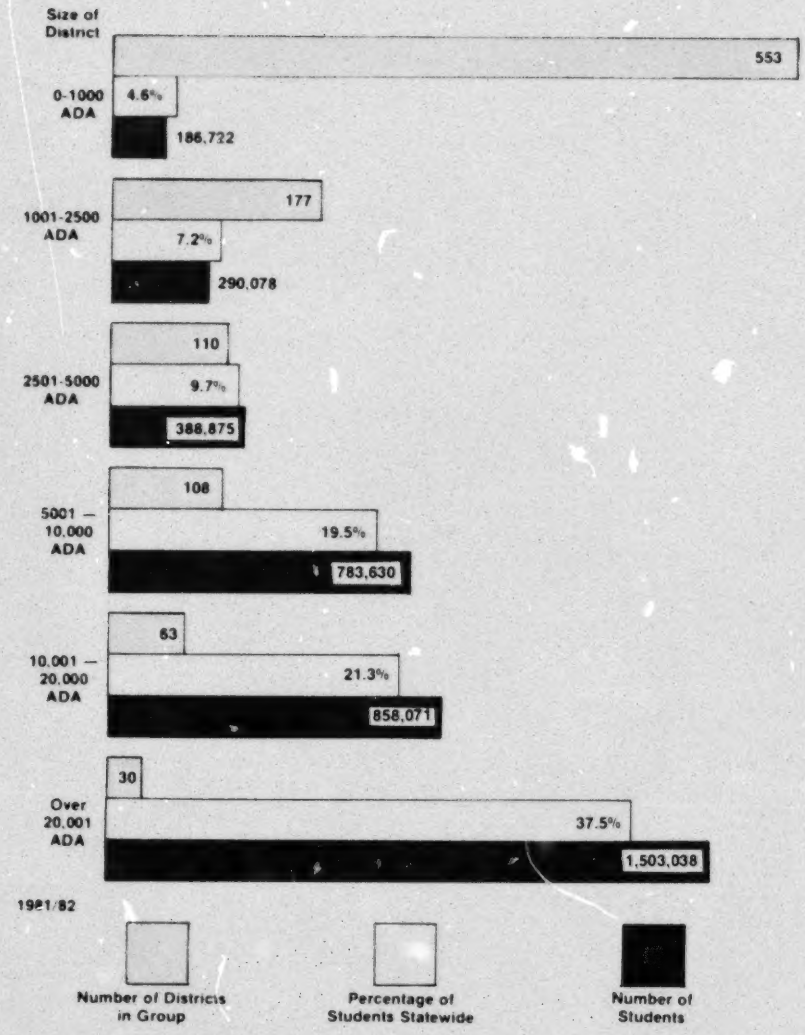
Introduction

This book is written to fulfill a need commonly expressed by board members, school administrators and concerned citizens: a book which contains useful facts about California's public schools and a simple readable explanation of school finance. The book is designed to be a portable source of information for public presentations, conversations with legislators, the press and the local community. It tells the story of public schools in California in 1982.

Chapter 1 contains facts about the public schools in California: their size, demography, student population and spending levels. Chapter 2 shows California as a state compared to other states for its spending on schools, teacher variables and student performance. In Chapter 3, school finance is described historically from the period immediately preceding Proposition 13 to the present. A basic primer on school finance is included in Chapter 4. Revenue sources for state government are presented for the period from 1977/78 to the present in Chapter 5. Chapter 6 includes comments made by private economists about the outlook of California's economy. Two appendices are included for reference: a glossary of school finance terms and factors effecting schools in the 1970s and 1980s.

Figure 1
California Public Schools: Students and Districts



Chapter I

California Public Schools in 1982: Students, Districts and Spending Levels

California's public school system educates four million students in 1,042 school districts. School districts in California are of three types: elementary - grades K-8 (661 districts), high school - grades 9-12 (115 districts) and unified - grades K-12 (266 districts).

Most school districts have small enrollments. Five hundred fifty-three districts have fewer than 1,000 students, 680 have fewer than 2,500 students. Fifty districts have more than 20,000 students. Figure 1 illustrates the demography of California school districts.

When enrollments are considered, the 510 districts of all types with fewer than 1,000 students have a total of 4.6 percent of the enrollment in the state. The majority of school children (58 percent) are in districts between 1,000 and 10,000 students in size.

Spending levels by district size and type

As one would expect, spending levels of school districts vary by size of district and by type. The average revenue limit for elementary districts in 1981/82 was $1,712, for unified districts $1,868 and for high school districts $2,096. (See Chapters 3 and 4 for a discussion

Figure 2
Distribution of Public School Students by County

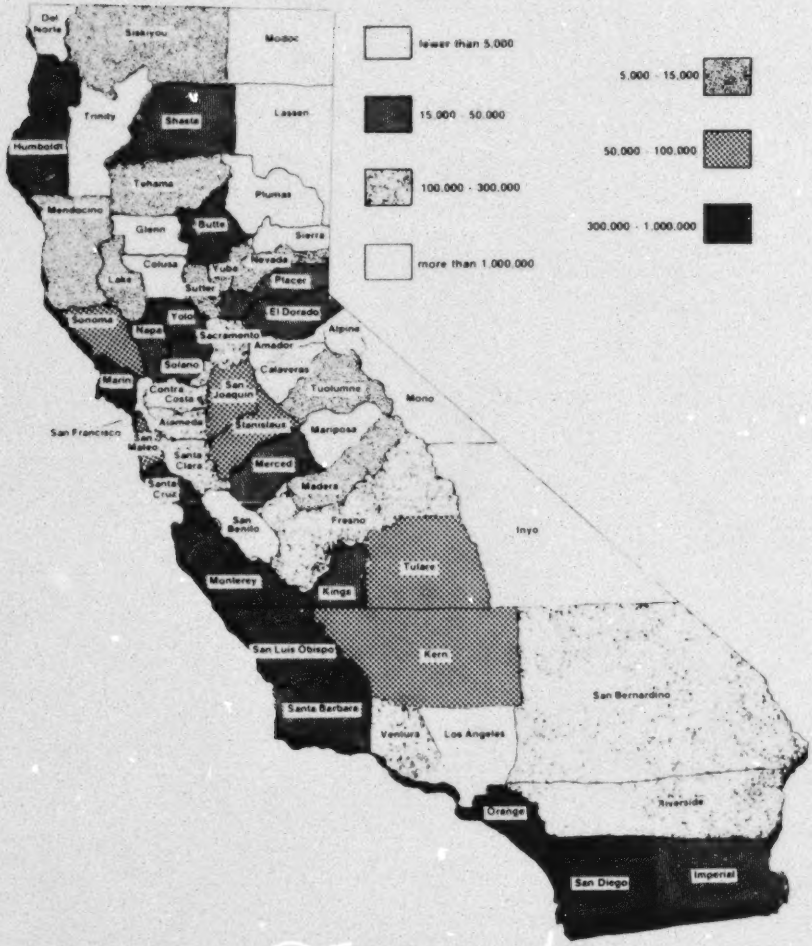
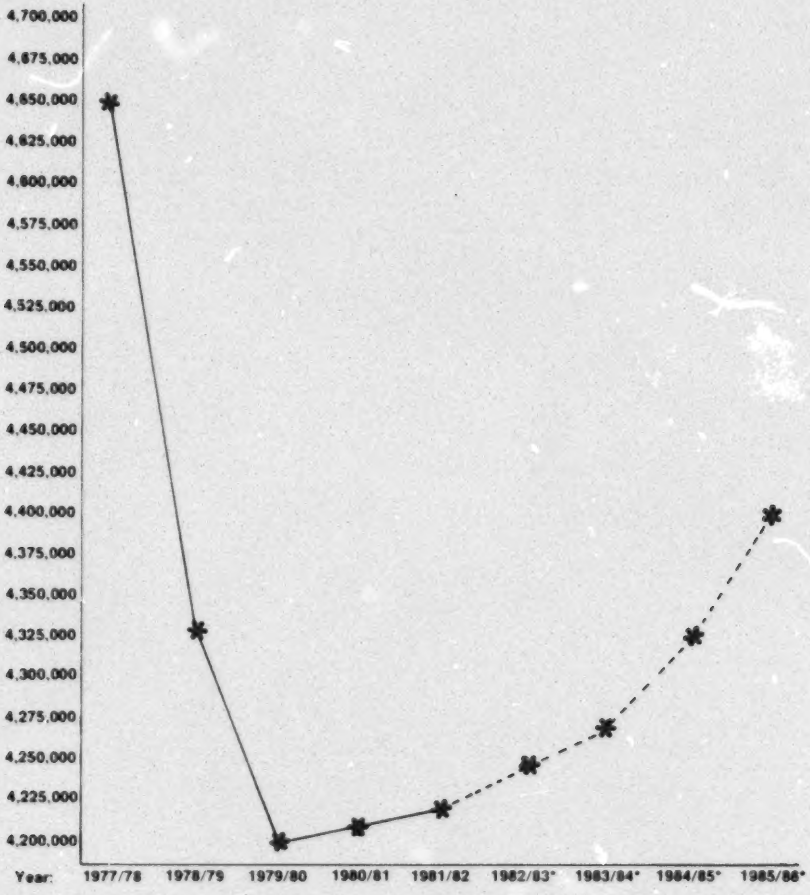


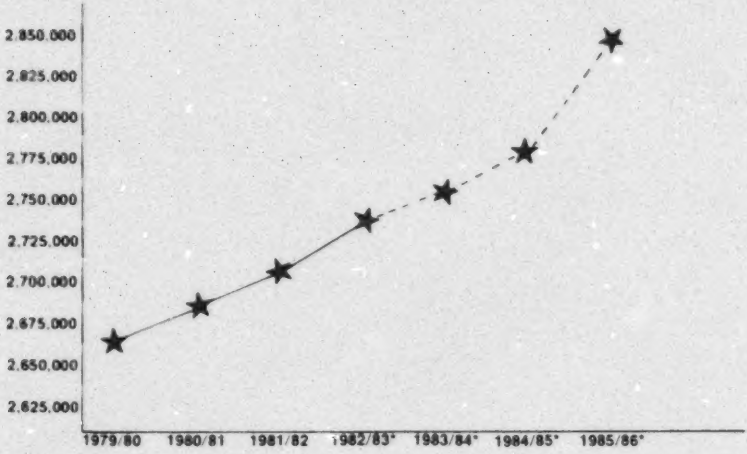
Figure 3
Statewide Total ADA



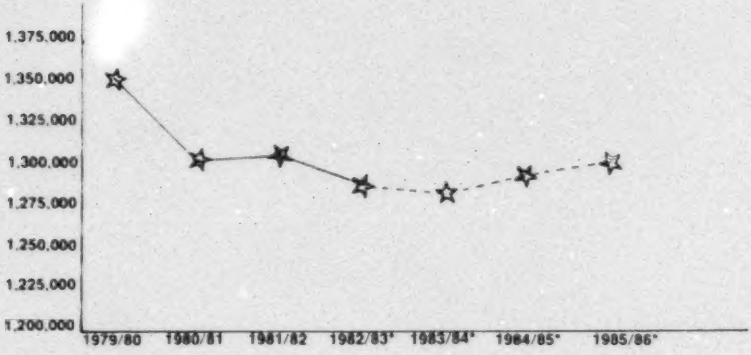
*Forecast: Department of Finance, Demographic Research Unit

Figure 4
Statewide Total ADA

Elementary (Kindergarten through Grade 8)



High School (Grade 9 through Grade 12)



Source: State Department of Education. Includes regular ADA only. Excludes summer school, special education and adult ADA.

***Estimated Figures**

of revenue limits.) The expenditure variation between types of districts is historical in origin and dates back to when high school teachers had a higher salary schedule than did elementary school teachers in the 1930's and 1940's.

Range of spending levels

Elementary districts, in general, remain the lowest spending districts and high school districts, in general, the highest. Unified districts, because they contain both elementary and high schools, usually have a spending level in the middle range. This spending difference between types of districts is taken into consideration in school finance laws and must be kept in mind when comparing or analyzing information about California school districts. Elementary districts school finance facts should always be compared to those for elementary districts. A single state average per pupil expenditure is always misleading in school finance discussions due to these significant differences.

The geographic distribution of students in the state is shown in Figure 2 (map). The counties with 100,000 or more students are: Los Angeles, Sacramento, Contra Costa, Alameda, Santa Clara, Fresno, Ventura, San Bernardino, Riverside, Orange and San Diego.

Enrollment trends

Enrollments in California are illustrated in Figure 3. They reached their lowest level since the early 1960's in 1979/80 and have been increasing since 1980/81. The dotted line on Figure 3 represents the forecasted levels of enrollment for the future as predicted by the Department of Finance Demographic Unit. Growth in enrollment is expected to accelerate within several years.

High school enrollments dropped between 1979/80 and 1981/82. Elementary enrollments have been steadily increasing. Figure 4 illustrates historical patterns in enrollment for elementary and high school students. By 1985/86, total enrollment is forecast to be 4.4 million students.

Chapter II

California Public Schools: Relative to Other States

The change's of the 70's

The 1970's were a period of vast change in California education, with the introduction of the revenue limit in 1972, the Serrano case, Proposition 13, the Gann limit and the growth of categorical aid programs. This chapter compares California to other states in the areas of school finance and student performance.

Financial Comparison

Figure 5 shows California's rank in 1971 and 1981 on background variables which are critical to school finance. The source of the comparison is the National Education Association, which has been ranking states on expenditure variables using consistent official data for 25 years, and Security Pacific Bank.

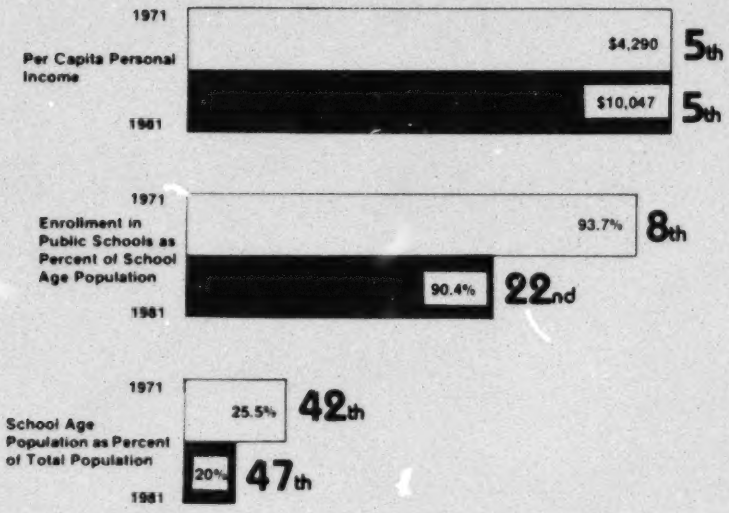
In 1981, 20 percent of Californians were of school age, which places California 47th in the nation. This is lower than the state's rank in 1971 (42nd) and reflects the demographic changes which have occurred in California.

Percentage of students in public schools

In 1981, ninety percent of California school children attended public schools and 10 percent attended private schools. In 1971, 94 percent attended public schools. This reflects the growth in the private school population which has occurred in the last ten years.

Figure 5
Ten Year Comparison of California's Relative Position in the United States

General



Figures include District of Columbia.

Despite the increase in private school enrollments, California in 1981 exceeded the national average of children in public schools: the state is 22nd on this measure. The national average is 88 percent in public schools.

California is rich in per capita personal income, ranking fifth in the nation both in 1971 and 1981.

Government spending in in the schools

Figure 6 shows California's ranking on measures of all government spending, including spending on schools.

From 1971 to 1981, California dropped as a state from third to seventh in total expenditures per capita for government. The impact of Proposition 13 is reflected in these statistics. Per capita spending for schools dropped from eighth to 19th. When other major areas of government expenditure are examined, California spends at a higher relative rate for welfare, health, police and fire than it does for education. In 1981, California ranked fifth among states for welfare spending, sixth for police and fire, seventh for all expenditure, 12th in health spending and 19th in school spending per person.

Figure 7 shows California's ranking on measures of school spending.

In all school spending variables, California's relative position has declined between 1971 and 1981. California is now 24th in its spending per student, and the state is 48th when school spending is considered relative to the per capita personal income. California was 44th in 1981 in state and local expenditure for all education as a percentage of all government spending.

Figure 8 presents California's position on teacher-related information.

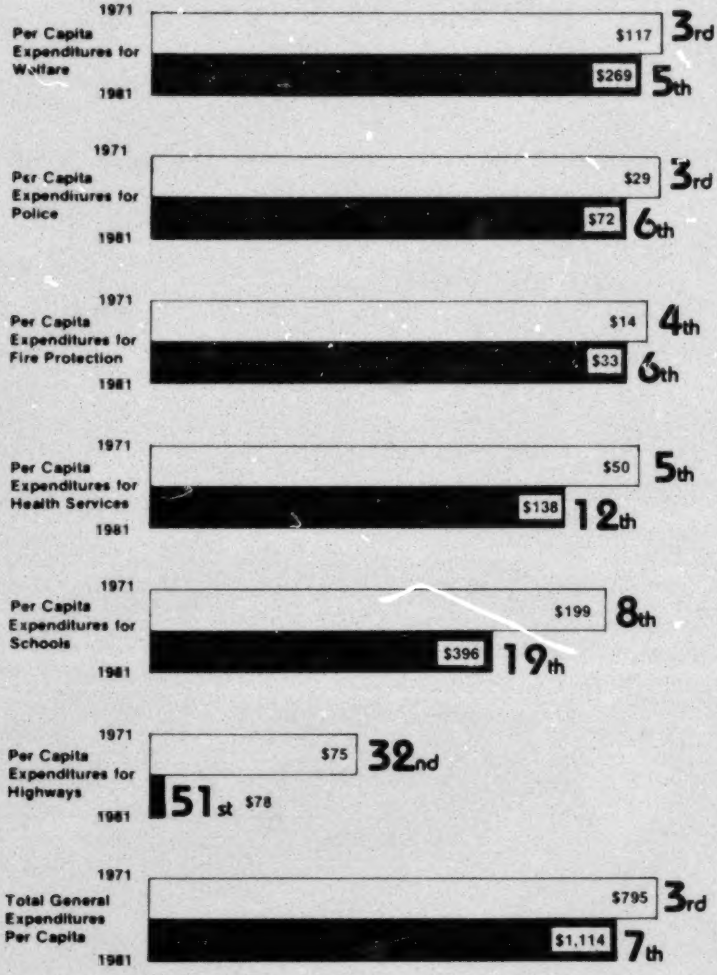
Teachers/ class sizes/ salaries

California ranks 49th in pupils per teacher, that is, California had the second largest class sizes in the United States in 1981. Teacher salaries in California were third in 1971, by 1981 they had dropped to seventh. When salary increases over the ten year period are examined, California is 45th, falling behind in increases in all but five states.

Figure 6

Ten Year Comparison of California's Relative Position in the United States

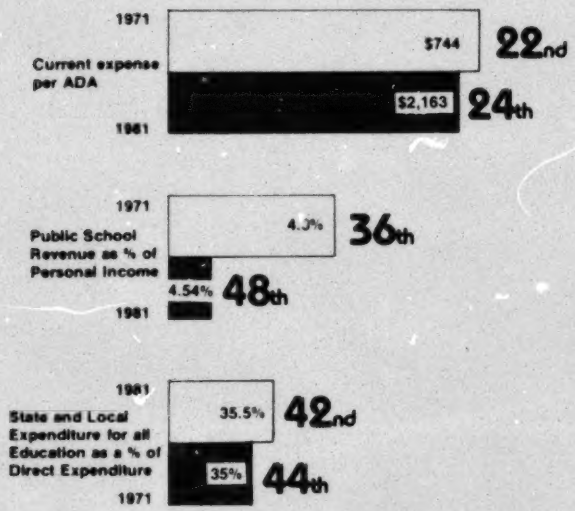
Government Expenditures



Figures include District of Columbia.

Figure 7
Ten Year Comparison of California's Relative Position in the United States

School Expenditures

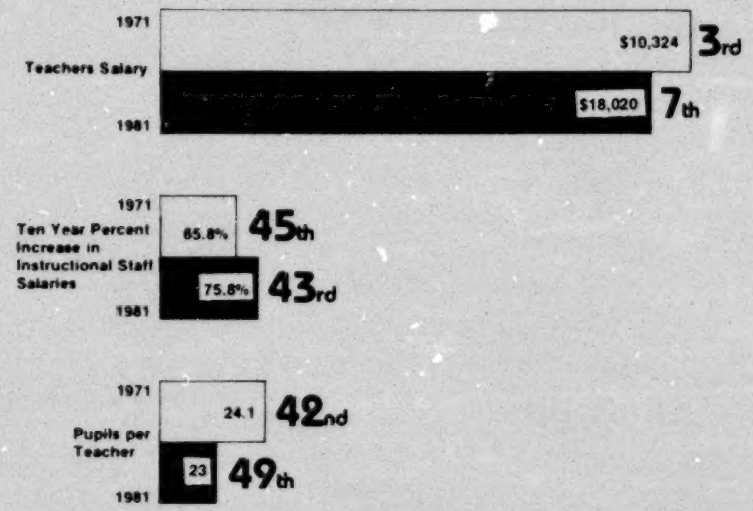


Figures include District of Columbia.

Figure 8

Ten Year Comparison of California's Relative Position in the United States

Expenditures for School Staff



Figures include District of Columbia.

In February 1982, Security Pacific National Bank, Public Affairs/Research Department released figures on California's spending on public education relative to other states. Their findings confirm the information presented above. Security Pacific economists examined expenditures for education by state and local government per $1,000 of personal income. Their data shows that in the period immediately preceding and following the passage of Proposition 13 (1977/78 and 1979/80) California decreased by 15.6 percent its spending on schools per $1,000 of personal income.

Decrease in School Spending after Prop. 13

The bank economists compared what California should have spent for education, if it were to conform to the national norm related to each $1,000 of personal income. In 1979/80, California was ten percent below the national norm, underspending for local schools by $1.11 billion.

Security Pacific compared expenditures between 1977/78 and 1979/80 for all entities of local government, including schools. The bank concluded that, while all local government spending increased during this three-year period by 16.4 percent, schools had the lowest increase with only 9.2 percent. During this same period, personal income of Californians increased by 30.1 percent. The source of the Security Pacific study's data was the Governments Division, Bureau of the Census, U.S. Department of Commerce.

Performance of California School Children

There are a variety of sources of information on student achievement in California. In this section, we have selected two major sources of student performance data: the state Assessment Program (CAP) and the Scholastic Aptitude Test (SAT).

State assessment of student achievement

The state assessment program has been in operation since 1961. Each year tests are given at grades 3, 6 and 12. The results are reported for statewide trends, by school district and by individual school. Individual classroom and/or student data is not produced by the CAP program.

The CAP results show that student achievement in the third grade has been steadily increasing in recent

years, as has sixth grade achievement. Figure 9 shows the results from 1975 to 1981. From 1975 to 1979, high school scores declined. In 1980, however, an increase in achievement at grade 12 occurred. This increase occurred again in 1981.

California student achievement in 3rd & 6th grades

In order to compare California student achievement with that of students in other states, it is necessary to compare them to a national norm or reference group. Norming studies are done by test publishers every five to eight years to reflect national changes in achievement trends. When compared to a national reference group prepared for the Comprehensive Test of Basic Skills in 1973, California third and sixth grade students are scoring above national norms. Based on CTBS norms, California third graders in 1980 scored at the 59th percentile in reading, 54th in language and 52nd in mathematics. California's third graders are above the national average in reading, math and language. In reading, California third graders are scoring nine percent above the national average.

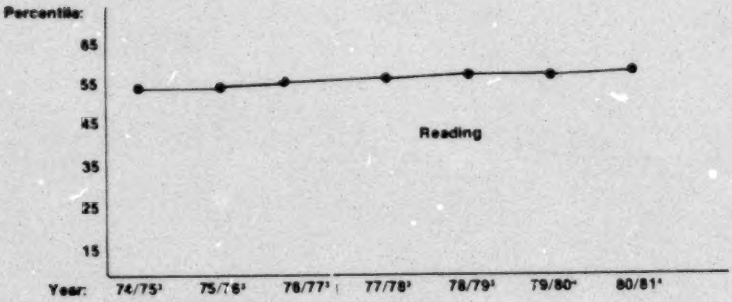
Sixth graders in California exceed national standards in reading, math and language according to CTBS norming studies. This has been the case since 1975/76. Sixth graders in California scored in the 56th percentile in reading, 54th percentile in language and 56th percentile in math in 1980/81.

Performance of 12th graders

The profile of California 12th graders' achievement, when compared to their national peers (via norms calculated in 1978) shows California's high school students to be below the national average. California 12th graders scored in the 42nd percentile in reading. Nationally, 12th graders have declined in achievement and the re-norming studies performed by test publishers reflect that decline: norms themselves have been lowered. Using old (1970) norms, California 12th graders in 1980 would have scored in the 33rd percentile by one publisher (Test of Academic Progress) and 35th by another (STEP). Figure 10 shows results for California 12th graders normed to the Iowa Test of

Figure 9
California Student Performance
Percentile Rank Scores

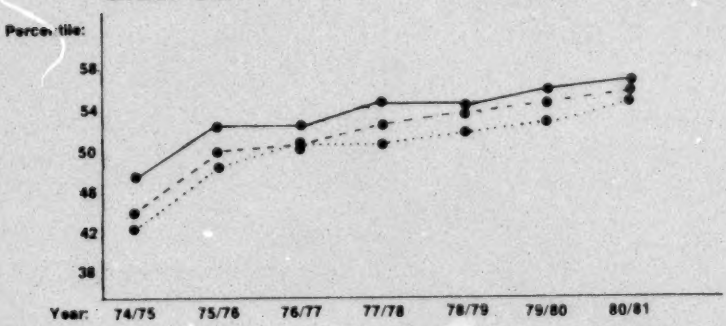
Grade Three



[3]Norms from revised reading test equated to Comprehensive Test of Basic Skills
[4]Norms from Survey of Basic Skills

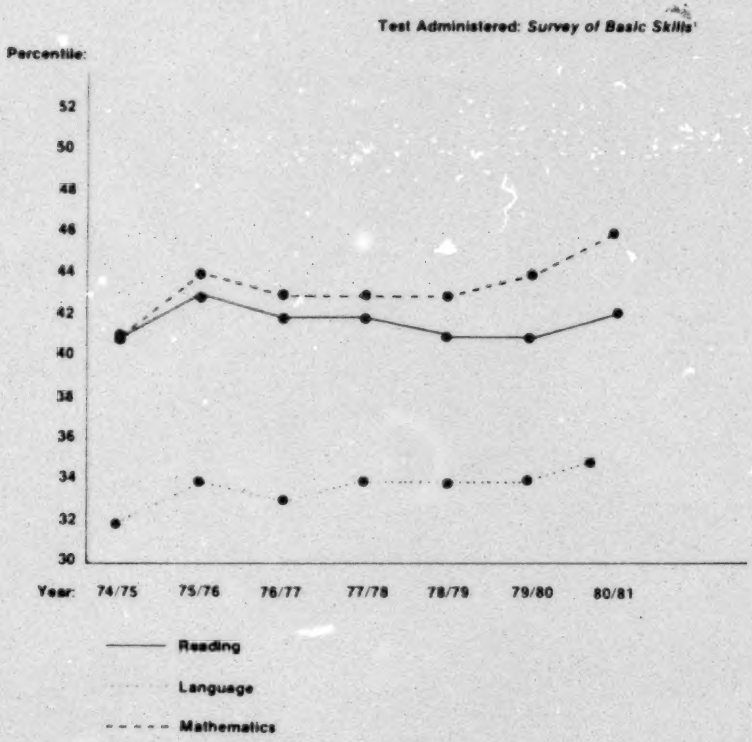
Source: Student Achievement in California Schools 1980/81 Annual Report
Department of Education

Grade Six



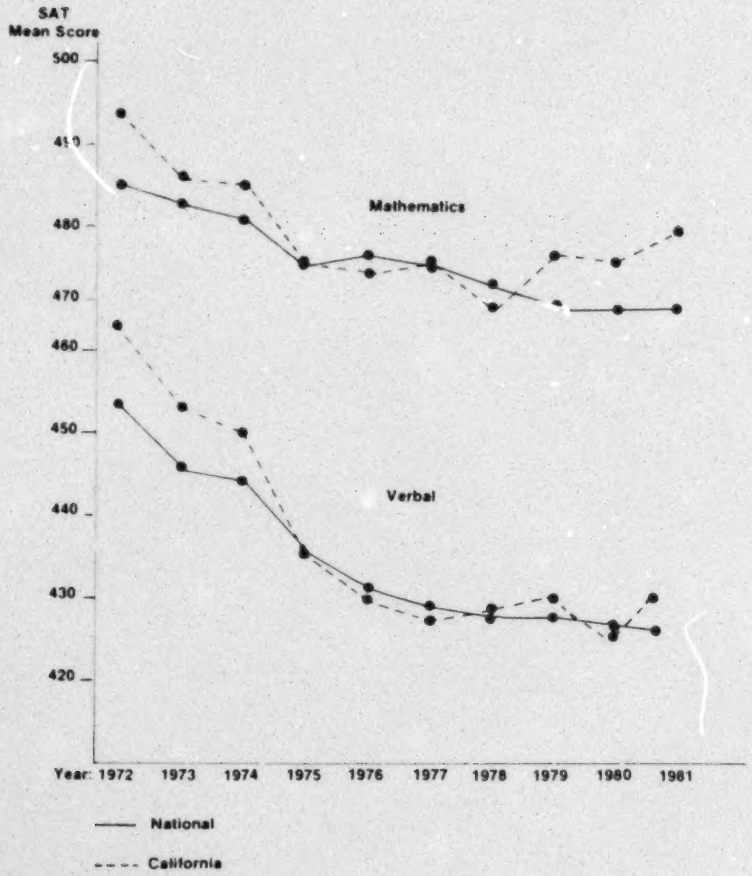
The revised version of the *Survey of Basic Skills: Grade 6*, was administered from 1975-76 through 1980-81. The percentile ranks are based on an equating of the revised *Survey of Basic Skills* and the *Comprehensive Tests of Basic Skills (CTBS)*, Form S, 1973 edition.

Figure 10
California Student Performance
Grade 12 Percentile Rank Scores



[1]The new California test, the *Survey of Basic Skills: Grade 12*, was administered to all California students from 1974-75 through 1980-81. The percentile ranks are based on equating studies of the *Survey of Basic Skills* and national norms for the *Iowa Tests of Educational Development*, normed in 1962 and 1978.

Figure 11
Scholastic Aptitude Test (SAT) Scores for High School Seniors in California and the United States



Educational Development (ITED) from 1974/75 to 1980/81.

Another source of information on student performance is the test taken by students who wish to enter college, the SAT test. Figure 11 shows the SAT scores for high school seniors in California compared to the United States from 1972 to 1981. In the mid-1970's, California's students declined in achievement as did the rest of the United States. However, since 1979, California twelfth graders have exceeded their peers nationally in math SAT tests. Since 1980 they have exceeded their peers in other states in the verbal portion of the SAT.

SAT results

Statistics can be misleading. A case in point is the recent news stories which noted that Californians taking the Scholastic Aptitude Tests (SAT) in 1981 received lower scores than did students in some other states. But a careful examination of those statistics reveal some interesting facts.

For instance, of those states where SAT scores were higher than California's, in only one (New Hampshire), did 35 percent or more of high school seniors take the exam. So California, where 102,595 seniors (35 percent) took the exam and scored an average of 901 out of a possible total score of 1600, looks pretty good as compared with New Hampshire where 53 percent of the seniors (those taking the test that year) amounted to only 7,580 people whose average score was 918. South Dakota claimed the top spot with a total average score of 1080. But in that state, only two percent of high school seniors took the test — a total of 269 young people.

Statistical interpretation of SAT scores

These performance results show that California elementary students score well above their peers in the United States in reading, math and language. California high school students have exceeded national results on the SAT test in recent years. Since 1980, twelfth grade achievement generally in California has been increasing. See Appendix A for factors which effect California's public school children: changes in the makeup of California's families and patterns of television viewing.

Chapter III

California School Finance In The 1970s

This chapter describes school finance in California: its history since 1977/78 and its importance to the state budget.

School finance — before Prop. 13

The year before Proposition 13 passed was 1977/78. At that time, schools were supported 55 percent by the local property tax, 37 percent by state sources and eight percent by federal sources. The school finance law in operation was AB 65: a bill designed to improve Serrano compliance. Since 1971, the state had been under close scrutiny in state courts for its school finance laws.

Serrano I

In 1968, John Serrano joined with nine other parents and sued a number of state and local officials on the grounds that the school finance system resulted in an unfair and unequal education for his son. In 1971 the State Supreme Court ruled that the California school funding system did violate equal protection clauses of the state and U.S. consitutions, stating that the system "invidiously discriminated against the poor because it makes the quality of a child's education a function of the wealth of his parents and neighbors." Taxpayers in low property value per student districts (called "low wealth") paid higher tax rates for schools while their children received lower school spending per student. The situation was the reverse in high wealth districts:

The Serrano Problem of the early 1970's

Serrano's legal underpinning was the dilemma of taxpayers and children in low property tax wealth districts in the late 1960's and early 1970's: taxpayers in low wealth districts paid higher taxes and received lower per student expenditures for public schools. The California State Supreme Court ruled that education is a fundamental interest in the state Constitution, and that access to it cannot depend on local district property wealth. The state court examined the inequity in tax rates versus school spending and declared the system unconstitutional. The classic *Serrano* comparison to illustrate the inequity is made between Beverly Hills and Baldwin Park. In 1973/74, Beverly Hills had higher property value per student, lower taxes and higher school spending than did Baldwin Park.

1973/74	Beverly Hills	Baldwin Park
Property Value per student	$58,922	$5,494
General Purpose School Tax Rate per $100 of assessed value	$ 3.08	$3.24
Current Expense per student	$ 1,716	$919

Source: Department of Education, Selected Statistics for 1973/74

low tax rates, high school spending per student. The case was sent back to the Los Angeles County Superior Court for factual determination. (See box.)

Senate Bill 90

The increasing concern about the implications of *Serrano* and the growing pressure for property tax relief brought about SB 90, a bill which cost over $1

billion, half of which went to tax relief and the rest to education. A one cent increase in the sales tax and federal revenue sharing funds financed the bill.

SB 90 — the revenue limit

SB 90 required every district to establish its own revenue limit per student. The original revenue limit was determined using each district's 1972/73 revenues from a series of property taxes and state aid. The revenue limit is the maximum amount of state and local general funds available for each student in a district. From SB 90 to Proposition 13 the revenue limit controlled local school property tax rates. Revenue limit funds represent the principal source of funds for regular education programs.

After SB 90 introduced the revenue limit, the tax income for schools was no longer based on the increase in assessed values, or the current tax rates, or the amount of funds received from the state, but solely on the revenue limit, which could increase only a set percentage each year. That percentage would depend upon formulas contained in state law. Once a district's revenue limit had been set according to state law for a particular year, state aid was deducted, and the remainder could be raised from the local property tax. (See page 33 for a description of the revenue limit.)

The revenue limit mechanism is designed to provide *Serrano* compliance and property tax relief. Establishment of revenue limits locked in existing inequities between district spending levels. The inflation factor was used to move high and low spending districts toward equalization: those districts with low spending per pupil could increase their limit each year by up to 15 percent while higher spending districts were permitted only one to nine percent increases. This closure of the gap between revenue limits in various districts is called "convergence." Through increased state aid, SB 90 reduced school tax rates up to 40 percent in low wealth districts with high tax rates to support schools.

"Closing the Gap"

Serrano II

The *Serrano* case had been remanded to the Los Angeles Superior Court, where it was heard by Judge Bernard Jefferson. His decision, rendered in the

summer of 1974, agreed that the California school finance system was unfair to taxpayers and children in low-wealth districts. He also ruled that SB 90 made insufficient progress toward compliance and required that wealth-based differences in per pupil spending be less than $100 statewide by September 1, 1980.

Jefferson decision of 1974

Judge Jefferson's decision was appealed back to the State Supreme Court where it was reaffirmed by a four-to-three vote in December 1976.

AB 65

AB 65 was the legislature's response to the December 1976 Supreme Court ruling on *Serrano*. AB 65 extended the concept of revenue limit equalization through a series of provisions:

- **Property tax equity:** More state funding was provided for low property value per student districts to support a larger share of their revenue limits. Recapture provisions for high property value per student districts were instituted. Districts whose property wealth exceeded specified levels, who had succeeded in getting the voters to approve an increase in their revenue limit, were required to return some funds to the state. These funds are described as "recaptured."
- **Expenditure equity:** Inflation factors were increased to provide faster revenue limit convergence.
- **Special needs:** Four-year phase-in of the Master Plan for Special Education.
- **School Improvement:** The Early Childhood Education program was expanded to grades K-12.
- **Differential costs:** Urban Impact Aid extended to 19 large school districts.
- **Economic Impact Aid:** The merger of the bilingual education program with Educationally Disadvantaged Youth Program, created California's compensatory education program.

Major provisions of AB 65

As school finance debates centered on *Serrano* compliance, assessed valuation of property and property tax revenues were growing rapidly. Tax revenues for

schools were controlled by the revenue limit mechanism, and did not accelerate as rapidly as did tax revenues for cities, counties and special districts. Property taxpayers were required to pay higher and higher property taxes, despite some limited state tax relief measures. A large state surplus was accumulating while the legislature was unable to offer the public a significant tax relief program. The public responded with the passage of Proposition 13.

Proposition 13

Proposition 13 or the Jarvis-Gann Initiative

Proposition 13 was passed by California voters on June 6, 1978. It had a far-reaching impact on state and local government finance. Proposition 13 contained six major provisions:

1. Property taxes were limited to one percent of property's full cash value, excluding indebtedness previously approved by the voters.
2. Counties were to collect and apportion the one percent tax in "accordance to law" to the cities, school districts, special districts and county government.
3. The full cash value of property reverted to its appraised value as of March, 1975.
4. Increases in full cash value were not to exceed two percent per year except when property was purchased, newly constructed, or had a change in ownership, at which time it would be appraised at the current market value.
5. A two-thirds vote of qualified electors of any local taxing agency was required to impose any special taxes, with a prohibition against new property taxes.
6. A two thirds vote of both houses of the Legislature was required to increase any state tax with a prohibition against levying property taxes.

The passage of the initiative precipitated a major fiscal crisis in public finance. Property tax revenues lost to local governments totalled $7 billion. Tax collection mechanisms had to be thoroughly revised to conform to the new constitutional provision.

The Legislature and the Governor responded to the crisis by enacting a one-year "bailout bill," SB 154. Using a state surplus which had grown to $5 billion, SB 154 supported local government activities carried out by school districts, cities, counties and special districts.

SB 154 — the "bailout" bill

In addition, SB 154 reconstructed the property tax under the new circumstances created by Proposition 13. Under SB 154, the property tax would be levied at the new $4 rate by the county auditor and distributed to local governments, including schools, within the county in proportion to their share of the 1977/78 property tax revenue within the county. This proportionate share concept replaced the former ability of locally elected supervisors, school board members and city councils to levy taxes to support their respective government entities.

State aid to schools under SB 154 guaranteed districts between 85 percent and 91 percent of their anticipated 1978/79 revenues through a mixture of state aid and local property taxes. The definition of 1978/79 revenues contained in SB 154 included the revenue limit and permissive taxes formerly levied by the school district. An important element of SB 154 was its "block grant" approach: districts were authorized to use funds from former permissive taxes earmarked for summer school, adult education, community services, and child care, to support general school programs. The range from 85 percent to 91 percent was a sliding scale to support a higher share of lower revenue limit districts' budgets than higher revenue limit districts. This was a *Serrano* compliance feature built into the law. All categorical aid programs, except for special education, were funded at 90 percent. A controversial provision of SB 154 was that one third of locally held reserves in excess of five percent or $50,000 of operating funds would be deducted from state aid.

90% funding for categorical aid programs

SB 154 contained provisions to support counties, cities and special districts, as well as school districts. A major feature of the bill required that no local entity receiving state aid under SB 154 could grant a raise to

its employees greater than that granted to state employees. This provision was later ruled unconstitutional by the California Supreme Court.

Alterations to SB 154

SB 154 enabled state and local governments to weather the immediate crisis presented by Proposition 13. In the months that followed, elements of SB 154 affecting schools were altered. Primary alterations were in the area of reinstating mandates over funds derived from former permissive taxes. Maintenance of effort provisions were put into place in the areas of programs for the handicapped, adult programs in certain categories, summer school for graduating seniors and child care programs.

AB 8: A More Permanent Solution

In 1979, the Legislature enacted legislation to address more permanently the fiscal issues raised by Proposition 13. The property tax constructed by SB 154 was left intact with one major exception: $750 million of property tax revenues held by school districts was transferred to cities, counties and special districts. The property tax revenues lost to the schools were made up with state aid. This change reduced significantly the state's further involvement in the financial support of cities, counties and special districts, while expanding education's dependence on state support.

Important provisions of AB 8 were:

Major provisions of AB 8

1. Annual revenue limit increases for every district were to be set via a formula designed for *Serrano* compliance. Local property taxes are deducted from authorized revenue limits and the balance is given as state aid. The state share of revenue limits would be 80 percent.
2. Small districts — those having less than 2,501 students — with large expenditures for transportation — over three percent of their operating budgets — received special state assistance. A total of $17.8 million dollars was authorized in AB 8 for two years and continued indefinitely in AB 777 (1981).
3. One Hundred Two Percent Guarantee: Every district

was guaranteed an annual revenue limit increase of at least 2 percent. This was authorized for two years in AB 8 and continued for another two years with modification in AB 777.

4. State-mandated adult and summer programs were funded, but programs in non-mandated categories are not to receive state aid.
5. All state categorical aid programs were placed on a four-year schedule for sunset review. If a program is not re-enacted, its laws and regulations expire as of a specified date.
6. New state funds for capital outlay were set aside.
7. Deflator: If state revenues fall below an amount calculated according to law, state aid to schools and local government will be reduced according to a formula. This reduction will be split half and half between the schools and local government. (This deflator mechanism was suspended for 1981/82 and 1982/83 through legislative action.)

AB 777 (1981)

AB 777, enacted in June of 1981, provides school funding for 1981/82. Three features of AB 777 are noteworthy:

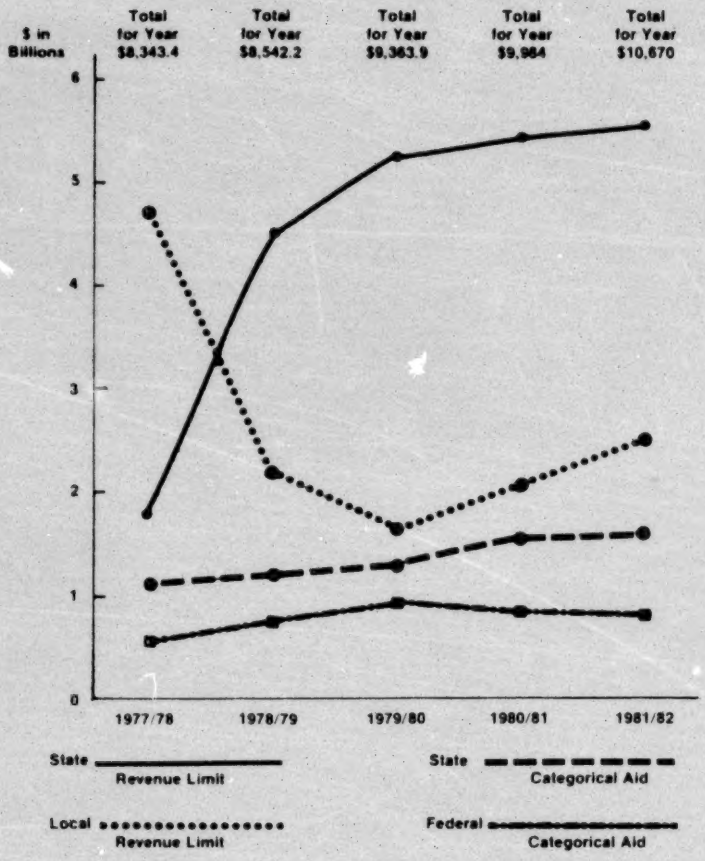
Major features of AB 777

1. Transportation funding was transformed from a separate categorical aid program to a revenue limit adjustment. The local general fund contribution for transportation was removed from the revenue limit and funded separately. This provision, which expires June 30, 1982, provides relief to districts with large transportation costs.
2. Boards may request a waiver of any law in, or regulation derived from, the Education Code. The State Board of Education must approve the waiver unless it finds that certain conditions are present.
3. Boards may consolidate a series of categorical aid programs at the school site level under the School-Based Consolidation Program.

State Budget for 1982/83

The 1982 recession has lowered state revenues, thereby significantly affecting the state budget for 1982/83.

Figure 12
Five Year History of California K-12 School Support



Source: Office of the Legislative Analyst, Analysis of the Budget Bill for 1979-80, 1980-81 and 1981-82. For 1981/82: SB 840, SB 110, Legislative Analyst.

*These figures include county offices and exclude adult education.

As enacted, the budget provided no inflation adjustment for schools in the revenue limit or categorical aid programs. Districts will receive new operating funds from only two sources:

1. Growth in ADA will be funded at the 1981/82 total revenue limit.
2. An additional $12 per ADA was granted to be used for non-personnel cost items.

Funding for the 1981/82 state aid deficit in special education was provided contingent on mandate reduction in the program.

School year 1982/83 will be the first year since Proposition 13 that school districts have not received an increase in operating revenues. Dependence on state revenues is the underlying factor contributing to the crisis in school support.

Figure 12 presents the total figures for state school support during the tumultuous period from 1977/78 to the present.

Prop. 13: Impact on schools

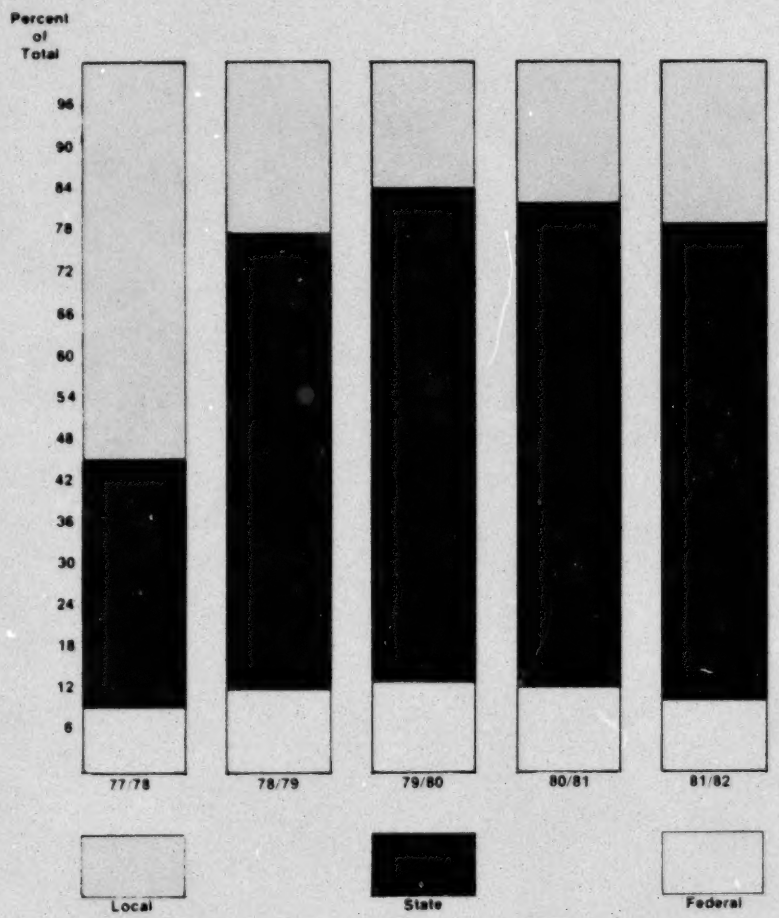
The impact of Proposition 13 is dramatic: the overall increase in school revenues is a modest 2.3 percent from 1977/78 to 1978/79 and there is a major shift away from local support to state support of the revenue limit. In 1981/82, schools were supported 68 percent from state revenues and 24 percent from local revenues. Figure 13 shows the percent of school support from state, local and federal sources.

The local support of schools has dropped from 57 percent to 24 percent in the five years since Proposition 13. The local share has fluctuated since Proposition 13 due to changes made in local property tax distribution in AB 8 and the use of one-time impounded unsecured tax roll funds in 1981/82.

Growth in state categorical funds

The growth in state categorical funds has been significant during the 1970's. In 1977/78, state categorical aid was $1,161 million. By 1981/82 it had grown to $1,842 million for a total increase of 58 percent over the five year period. The revenue limit grew 23 percent during the same period. School districts, finding themselves

Figure 13
Sources of K-12 School Support in California



Source: Office of the Legislative Analyst, Analysis of the Budget Bill for 1979-80, 1980-81 and 1981-82. For 1981-82: SB 840, SB 110, Legislative Analyst.

increasingly dependent on the state for support of the revenue limit, also feel state influence growing in the area of categorical aid funds.

Figure 14 shows the individual state and federal government categorical aid programs offered by the state from 1977/78 to the present.

Gann Spending Limit

In November of 1979, the voters passed an initiative creating the Gann Spending Limit in the California Constitution. The Gann limit places a restriction on state and local government spending. Annual increases in any government entity's spending may not exceed the percent increase in the entity's population plus the Consumer Price Index (CPI). The base year for determining each government entity's spending level is 1978/79. Revenues in excess of the spending limit must be returned to taxpayers within the jurisdiction. In any year in which per capita personal income exceeds CPI, per capita personal income growth shall be used to determine permissible spending growth.

SB 1352 – implementing the Gann initiative

The Gann initiative required legislation to implement its provisions: SB 1352 (Marks) Chapter 1205 Statutes of 1980. The legislation shaped a special Gann limit approach for schools. School revenues were divided between local district Gann limits and the state government's Gann limit.

The following school revenues are contained in the local limit for each district.

1. Local property taxes.
2. Number (1) plus sufficient state aid to reach a specified amount per student. This amount is based on the 1978/79 Foundation Program level ($1,241 for elementary districts, $1,322 for unified districts and $1,427 for high school districts). Each year these figures are increased by the CPI for the preceeding calendar year.

School revenues in state Gann limit

The state's Gann limit contains the following school revenues:

1. State aid for the revenue limit which exceeds the

Figure 14
Categorical Aid: State and Federal
1977/78 to 1981/82 ($ in millions)

State	1977/78	1978/79	1979/80	1980/81	1981/82
Urban Impact Aid	$ 71.7	$ 44.1	$ 62.1	$ 63.4	$ 58.0
Transportation	59.4	59.1	75.0	78.0	172.2[2]
STRS Direct to Fund	144.3	144.3	171.6	221.2	223.2
STRS to Support Districts	118.1	128.8	----	----	----
Textbooks	16.2	43.1	38.4	42.5	40.0
Economic Impact Aid	130.1	123.7	141.5	162.0	171.7
MGM	14.9	13.4	14.1	16.4	16.9
Special Education	322.4	400.8	460.2	639.5	692.5
SIP	116.8	123.3	135.3	150.1	162.7
Miller Unruh	14.7	14.0	14.0	15.3	16.2
Driver Training	21.1	19.8	17.1	18.2	17.8
School Lunch	33.7	35.3	38.6	34.6	25.2
Child Care	72.7	80.9	88.0	170.1[1]	---
Preschool	24.5	24.5	25.8	28.6	30.1
Total	**$1,160.6**	**$1,255.1**	**$1,324.4**	**$1,698.6**	**$1,842.5**

Federal					
PL874	$ 102.6	$ 96.2	$ 130.3	$ 61.0	$ 35.0
Title I	164.8	228.1	227.2	275.9	252.8
Title IV	13.0	13.7	16.1	16.1	16.1
Special Education	19.1	52.5	98.2	96.3	78.6
School Lunch	255.4	290.9	325.3	301.1	303.4
Migrant Education	31.4	33.2	42.3	54.0	63.5
Child Care	32.7	45.2	52.4	51.5	0.0
Vocational Education	44.0	51.2	54.8	60.5	67.5
Total	**$ 663.0**	**$ 811.0**	**$ 996.3**	**$ 968.5**	**$ 816.9**

Source: Legislative Analyst, Analysis of the Budget Bill 1979/80, 1980/81 and 1981/82. For 1981/82: SB 840, SB 110.

[1] Federal Title XX support for child care was bought out by the state.
[2] Reflects AB 777 changes in transportation funding.

amount in the local limit as described in #2 above.

2. All state categorical aid. (Federal funds are excluded from Gann limits.)

The structure of the Gann limit is a further complexity in school finance beyond the constraints in the revenue limit. As a practical matter, however, the Gann limit will only affect districts with unusually large local property taxes supporting their revenue limits.

The Gann limit may have a greater affect on districts in future years if the state's Gann limit becomes a restrictive force having an adverse impact on the state's ability to support districts. This does not appear likely in the near term (two to five years).

Annual Gann limits for districts and county offices are established by resolution of the governing board and notification of the public. Such Gann limits may not exceed amounts allowed in statute.

Percentage of of school support received from from state general fund budget

Education in the State Budget

Prior to Proposition 13, K-12 school support was 24.7 percent of the state's general fund budget. Since Proposition 13, education (K-12) has been claiming 33 percent to 35 percent of the state general fund budget.

Education's large share of the state budget increases the likelihood that school revenues for the upcoming fiscal year will not be known until the state budget is enacted in July. Frequently, school districts do not know with certainty their revenue levels until school is underway in September due to the prevalence of "trailer bills" which may modify or amend the state budget or a school finance bill.

Chapter IV

California School Finance: A Primer

School Finance in 1982

Statewide, 74 percent of school district revenues come through the revenue limit. Seventeen percent come in the form of state categorical funds and nine percent in federal funds.

Revenue Limits

Revenue limits were developed initially for the 1973/74 school year under the provisions of SB 90 (1972). The revenue limit has undergone change since 1973/74, but some of its primary concepts have remained unchanged.

Primary features of the revenue limit

- **Revenue limits are expressed as dollars per ADA.** ADA is average daily attendance of school children and is a full time equivalency measure. Revenue limits range from $1,680 to a high of $7,000. Generally, elementary district revenue limits are around $1,712, high school district revenue limits are around $2,096 and unified districts are around $1,868. (These are 1981/82 figures.)
- **Revenue limits are different for every district** and are based on prior year revenue limit levels for that district.
- **Revenue limits are increased with inflation allowances contained in state law.** These formulas can be contained in a school finance bill (AB 777),

the state budget or an omnibus public finance bill (SB 154, AB 8).

* **Revenue limits are increased depending on a district's spending position relative to other districts.** Districts with relatively higher revenue limits for their size and type receive lower inflation adjustments. Districts with relatively lower revenue limits for their size and type receive higher revenue limit increases. The size and type categories are set in the law. They are:

  Elementary districts with less than 901 ADA
  Elementary districts with more than 900 ADA
  High school districts with less than 301 ADA
  High school districts with more than 300 ADA
  Unified districts with less than 1,501 ADA
  Unified districts with more than 1,500 ADA

Districts are always compared, for the purpose of determining their revenue limit increase, with districts of similar size and type. This differential increase to revenue limits has been in state law since SB 90 and is designed to close the gap between districts in revenue limits. "Closing the gap" is sometimes called revenue limit "convergence" and represents major state policy regarding *Serrano* compliance.

"closing the gap" — revenue limit convergence

The revenue limit increase calculation for 1981/82 was statutorily determined in AB 777. The increase ranged from $65 to $138 per ADA for most districts. Very low revenue limit districts received an inflation increase of more than $138 per ADA.

Unified districts greater than 1,500 ADA, whose prior year revenue limit was less than $1,724 received an increase of $138. This translates to an increase of eight percent. Unified districts of the same size, whose revenue limit in the prior year exceeded $2,059 received a revenue limit increase of $65 per ADA. The new revenue limits for these two districts are $1,862 and $2,124 respectively. See the example on the next page.

* **Statewide average increases to the revenue limit do not apply to each district uniformly.** The average increase incorporates wide variation in the increase

Revenue Limit Increases: Closing the Gap

Revenue limit increases are given on a sliding scale designed to bring about closure between district base revenue limits. Districts with higher revenue limits receive lower increases each year than lower revenue limit districts. This process, over a period of time, reduces the gap between revenue limits. In this example, the gap in 1980/81 between these two districts is $337. In 1981/82, the gap in their base revenue limit is reduced to $273.

	District A	District B	Gap
1980/81 Base Revenue Limit per ADA	$1723	$2060	$337
Increase for 1981/82 per ADA	$138	$65	
1981/82 Base Revenue Limit	$1852	$2125	$273

Revenue Limit Increases

given to districts. For example, a statewide increase of nine percent reflects increases which actually range district-to-district from a low of two percent to a high of 15 percent.

- **Other school-related cost of living adjustments (COLAs) are tied in law to the percent increase given in the revenue limit** to unified districts with greater than 1,500 ADA. Examples are: county office of education revenue limits, and special education.
- **Revenue limits are often recalculated year to year,** when expenditures for various purposes are removed and funded separately. Each time a particular type of expenditure is removed from the revenue limit, the average revenue limit decreases and sources of expenditure variation between districts are reduced. The particular type of

expenditure is commonly increased by a uniform amount statewide rather than a sliding scale. Expenditures for that purpose are removed from the equalization features in the revenue limit increase formulas.

Since AB 65, a number of recalculations of the revenue limit have occurred:

SB 154: *(1978/79)* former permissive tax revenues for the following programs were placed into the revenue limit: meals for needy pupils, adult education, child care, community services, development centers for the handicapped, etc.

AB 8: *(1979/80)* former permissive taxes were removed from the revenue limit and made revenue limit adjustments: meals for needy pupils, development centers for the handicapped, etc. Some former permissive taxes were further modified: adult education was given its own adult revenue limit; child care operated by school districts was bought out and funded by the state.

AB 777: *(1981/82)* local expenditures for home-to-school transportation were removed from the revenue limit and became part of the new transportation adjustment to the revenue limit with its own inflation adjustment.

Calculation of the Revenue Limit

Overseeing the Revenue Limit System

Each year, every district has a calculated revenue limit. This revenue limit can be expressed as a total figure or as a per ADA figure. The State Department of Education oversees administration of the revenue limit system with significant assistance from the county office of education. The calculation of the revenue limit can be simplified into six steps.

Step One — The current year revenue limit per ADA is established. Certain items may be removed or added

if a recalculation is called for in the operative school finance law or the state budget.

Steps Used to Calculate the Revenue Limit

Step Two — The current year revenue limit is inflated according to formulas in state law. These formulas use district size, type, and current year revenue limit as a basis for determining the district's inflation adjustment. This adjustment is expressed as dollars per ADA. The inflation adjustment, when added to the current year revenue limit from step one, becomes the upcoming year revenue limit per ADA.

Step Three — The upcoming year revenue limit per ADA is multiplied by the estimated upcoming year ADA to determine the total base revenue limit for the upcoming year.

Step Four — Revenue limit adjustments are added if the district qualifies for them: declining enrollment, 102 percent guarantee, small district transportation, meals for needy, etc. These adjustments are described below. The adjustments are added to the total base revenue limit from Step Three to create the total district revenue limit for the upcoming year.

Step Five — Local income from various sources is deducted from the revenue limit. Local income from property taxes, unsecured roll taxes, timber tax yield, motor vehicle license fees, etc. are considered.

Step Six — State aid is determined by subtracting the total local income in step five from the total district revenue limit in step four.

The revenue limit calculation is performed in December for the First Principal Apportionment of state aid and again in May for the Second Principal Apportionment. District calculations and estimates are reviewed by the county office and submitted to the state.

Revenue Limit Adjustments

Revenue limit adjustments for particular purposes

In addition to the base revenue limit which is inflated each year according to formulas in state law, there are a series of revenue limit adjustments for particular purposes. The major adjustments are described below. Each district may or may not have any of the following adjustments, depending on its particular circumstances.

Declining Enrollment Adjustment. This common adjustment is designed to assist districts who are experiencing a decline in enrollment so as to avoid precipitous declines in revenue from year to year. The goal of this adjustment is to allow the district time to make adjustments in its budget. To qualify, a district must have a decline in ADA of one percent or more. In the first year of the decline, the district may credit its revenue limit calculation with 75 percent of the loss in attendance. In the second year, it may credit itself with 50 percent of the loss in attendance in its revenue limit calculation. The second year adjustment, however, must be reduced by any increase in enrollment experienced in the second year following a decline. This seemingly contradictory provision was introduced in AB 777 and reflects the reality that a district can be increasing in enrollment and collecting the declining enrollment adjustment from prior years. (See the example box.)

102 Percent Guarantee. This adjustment has been in the law since 1978/79 (SB 154). It guarantees that districts will experience, at a minimum, an increase of two percent over prior year revenues. Revenues counted for this calculation include the base revenue limit described above and the declining enrollment adjustment. Because it does not apply to all revenues a district may have, the 102 percent guarantee may not actually produce a 102 percent increase for a particular district. In AB 777, the legislature modified the 102 percent guarantee: districts with revenue limits in excess of $3,000 per ADA receive a 100 percent guarantee. The 102 percent guarantee commonly applies to districts with higher relative revenue limits and/or declining enrollment.

Small District Transportation Adjustment. AB 8 initiated this adjustment which applies only to districts with fewer than 2,501 ADA, whose transportation expenditures in 1977/78 or 1978/79 were greater than three percent of their total current expense. During these years, the state average was one and one half percent. The amount of the adjustment is the difference between the districts transportation costs in 1977/78

or 1978/79 and three percent of their current expense of education in 1977/78 or 1978/79. The funds may be used for any purpose and are not limited to transportation.

Meals for Needy Pupils. This revenue limit adjustment originated in the permissive tax for school meals. It is calculated on a per pupil basis and inflated six percent annually. Districts qualify for this adjustment if they had levied the meals for needy permissive tax prior to Proposition 13.

Revenue Limit Adjustments

In summary, revenue limits vary between districts for a variety of reasons. The base revenue limit, which is 97 percent of the total revenue limit, is inflated annually based on prior year revenue limit and formulas. These formulas, in turn, take into account the size and type of the district. There are also revenue limit adjustments which may or may not be available to a particular district. Total revenue limit per ADA figures may mask the presence of adjustments. Therefore, the figures most often compared between districts are their base revenue limits.

Districts in California receive state aid through a variety of categorical aid programs. Unlike the revenue limit, districts must spend categorical aid funds for designated purposes.

Categorical Aid Programs: State

Figure 14 in this chapter showed the statewide amounts in various state categorical aid programs available to California school districts. Each program shown on Figure 14 is described below.

State categorical aid programs

Urban Impact Aid. This categorical aid program is unique in that it can be used for any purpose. Created in AB 65, this program sends funds to the 19 largest unified school districts in the state based upon their concentrations of low income and non-English speaking pupils.

Transportation. The state has provided state aid for home-to-school transportation for a number of years. The state determines approved cost in the prior year by

Illustration of Declining Enrollment Adjustment for 1981/82

Facts:	1979/80	1980/81	1981/82
(1)ADA	1000	950	930
(2)Annual ADA Loss in (1)	---	50	20
(3)1% prior year ADA in (1)	---	10	9.5
(4)Base Revenue Limit per ADA	---	---	$1800

1981/82 Declining Enrollment Adjustment

Step 1: Is the ADA decline greater than 1% of the prior year's ADA? (2)Greater than (3)? Yes

Step 2: Credit 75% of annual loss in (2) between 1981/82 and 1982/83 — 75% x 20 = 15

Step 3: Credit 50% of loss between 1980/81 and 1981/82. 50% x 50 = 25

Step 4: Add allowable lost ADA for 1979/80 and 1980/81, multipy by the 1981/82 Base Revenue Limit to determine the 1981/82 declining enrollment adjustment — (1980/81 allowed loss [15] + 1979/80 allowed loss [25] × $1800 Base Revenue Limit = $72,000)

applying certain cost standards to district-reported expenditures for transportation. The total cost in the transportation revenue limit adjustment is inflated each year with statutory cost of living adjustments.

State Teachers' Retirement System (STRS). The state transfers funds directly to support STRS on behalf of school districts, to improve the funding level in the retirement system.

Instructional Materials Fund (IMF). The state aids districts in the purchase of textbooks by a specific amount per student, inflated annually by a cost of living adjustment tied to the Consumer Price Index. In recent years, the inflation index has been set in the budget or a school finance bill at the time the revenue limit increase is determined.

Economic Impact Aid (EIA). This is California's compensatory aid program modeled generally after federal Title I. In AB 65, the bilingual education funds and Educationally Disadvantaged Youth Program funds were joined to form EIA. Districts qualify for EIA based on their concentrations of low income, non-English speaking and transient students. The greater the concentration of such students, the larger per student allotment the district receives. This is one of the two largest programmatic categorical aid programs in California and supports remedial instruction given by teachers and aides. It is administered by the state Department of Education through the consolidated application.

State categorical aid programs

Gifted and Talented Education (GATE), formerly Mentally Gifted Minor Program. This categorical aid program gives grants to districts to provide enrichment programs for identified gifted and talented children.

Special Education. The largest state categorical aid program ($652 million in 1981/82), special education is undoubtedly the most complex one as well. Federal law and regulation, state law and regulation, and court decisions have created a body of mandates for special education programs and services to individuals with exceptional needs. Programs offered range from several hours of speech therapy a day to a child in the regular program to full time residential care for a muiti-handicapped child. Determination of service to a child is done through an annual Individualized Education Plan prepared by school personnel and parents. Due process procedures for parents are specified in state and federal law. School districts and county offices of education submit local plans to the state Department

of Education for the delivery of special education within their geographic area.

School Improvement Program. This categorical aid program was called Early Childhood Education (ECE) prior to AB 65. School districts apply for funds from this program on behalf of individual schools. Each participating school must have school site councils consisting of school staff and parents to oversee the program. At the secondary level, students must also be involved. Funds are given in uniform amounts per student based on grade level. In 1981/82, these grants were $158 per ADA at grades K-3, $96 per ADA for grades four through eight, and $69 per ADA at grades nine through 12. At the elementary level funds from SIP are used primarily for aides, instructional materials and program improvement. At the secondary level, SIP may address a variety of identified school problems for improvement.

Miller Unruh Reading Program. This is one of California's earliest categorical aid programs; it began in 1965. Miller Unruh funds are used to assist districts in paying the salaries of reading specialists for grades K-6. The subsidy in 1982/83 is budgeted at $17,427 per Miller Unruh teacher, which is 77 percent of the statewide average elementary school teacher's salary.

Driver Training. The state provides funds to districts to provide behind the wheel training for students in high school. The aid is $60 per student and is based on programs offered in the prior year.

School Lunch. The state requires that every needy child receive one meal each day at school. State aid is given to districts on a per meal basis to support breakfast and lunch served to needy students.

Child Care. School districts who provided child care programs prior to Proposition 13 have been required by state law to maintain their effort in this area. The state bought out child care in 1980/81 and such programs are now funded on a contract basis between the state and the districts involved.

Preschool. The state provides aid to districts and agencies operating state preschool programs for low income families. These programs emphasize parent education as well as educational development of preschool children.

Categorical Aid Programs: Federal

In 1981/82, California public schools received roughly $900 million in federal aid. This aid comes as categorical aid, that is, tied to particular programs or services. The major federal programs are described below.

Federal categorical aid programs

PL 874 Impact Aid. The federal government gives assistance to school districts which have resident federal employees or federal installations within their boundaries. In recent years, this assistance has been reduced, particularly for students whose parents work for the federal government but do not reside on federal property. Originally federal impact aid was given in recognition of lost property tax revenues due to federal property within the boundary of a school district.

Title I. Federal Title I funds provide compensatory education for children attending schools in low income areas. Eligible schools are selected on the basis of the number of children from low income homes. Eligible students in those schools are selected for the program based upon low achievement. The programs consist primarily of remedial reading and math provided by resource teachers and aides. Title I began in 1965 and has remained a significant federal program in California.

Title IV. (Now part of the federal block grant in Chapter 2.) Title IV formerly provided funds for educational improvement. Chapter 2 is the new federal block grant which consolidates 31 federal assistance programs beginning October 1, 1982. The new federal block grant law required an advisory committee to recommend a formula for allocating at least 80 percent of the funds in the block grant to local school districts. Along with the former Title IV, funds for school libraries and Emergency School Assistance Act funds were consolidated into the block grant.

Special Education. Federal funds for special education support local special education programs. Federal funds comprise a relatively small share of the total spent for special education in California public schools. (See the section above on state categorical aid, special education.)

School Lunch. Federal funds provide a large source of support for school breakfast and lunch programs. These funds support meals for needy students. Some support is also given for reduced price meals, however this support has been declining in recent years.

Migrant Education. The federal government supports programs for migrant children for supplementary educational services. Since 1980, this program has received significantly increased funding.

Chapter V

Tax Sources In California

Education's heavy reliance on state support since 1978/79 leads to dependence on growth in state tax sources. Figure 15 gives a historical perspective on major state tax sources.

The large state tax sources show remarkable stability in their relative share of general fund revenues over this eventful period. This stability is even more noteworthy when the changes made in the major taxes are considered.

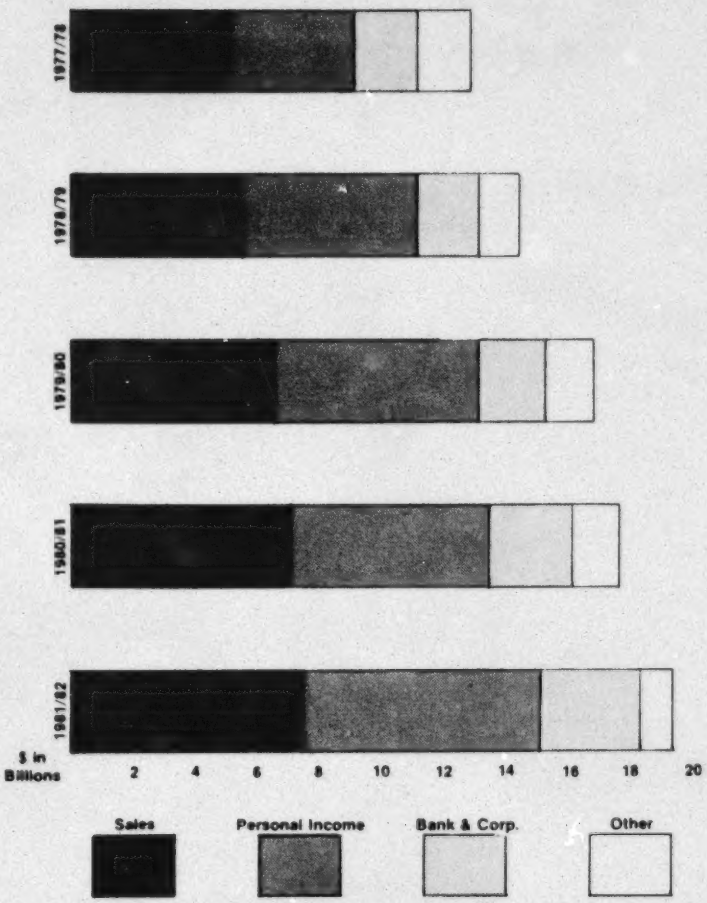
Indexing of the state income tax

In tax year 1978 and 1979, the personal income tax was partially indexed. Indexing means lowering tax rates by increasing tax brackets by some measure of inflation. This serves to prevent inflation from causing taxpayers' income to "creep" into higher brackets with higher tax rates. Under partial indexing used in California, the first three percent of the Consumer Price Index increase was exempted from indexing. In 1980 and 1981, the personal income tax was fully indexed: the three percent threshold was removed. In the June, 1982 primary, California voters approved a referendum creating full indexing of the state personal income tax.

The Legislative Analyst estimates that indexing of the income tax reduced state revenues by $5.7 billion from 1978/79 to 1981/82.

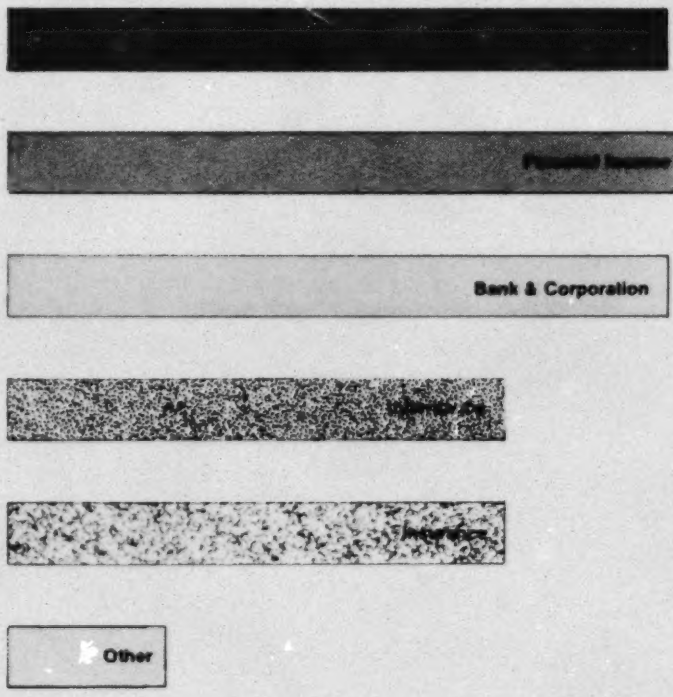
Figure 15

Tax Sources: State General Fund



Source: Legislative Analyst, Analysis of the Budget Bill for 1979/80, 1980/81 and 1981/82 and Report On Budget Action 1981/82

Figure 16
Tax Sources:
Growth Rates 1977/78 to 1981/82



Source: Office of the Legislative Analyst. Analysis of the Budget Bill for 1979/80, 1980/81 and 1981/82.

The sales tax is a lucrative source of state revenues. It has remained fixed at six percent for the five year period. The Legislative Analyst estimates that one cent on the sales tax will raise $1.6 billion in 1981 and $1.8 billion in 1982.

Repeal of the inheritance tax

The inheritance tax was lowered in 1981 by exempting inter-spousal transfers and increasing various other exemptions. The inheritance tax was repealed by voters in the June, 1982 primary election.

Full indexing of the state personal income tax and repeal of the inheritance tax will lower state revenues in 1982/83 by an estimated $325 million, growing to a $1.1 billion loss in 1984/85.

Figure 16 compares the growth of individual tax rates during the five years. Personal income taxes grew the fastest and "other" taxes (cigarette and alcohol) grew negligibly.

Chapter VI

Economic Realities Versus Federal Policies

Introduction

In February, 1982, CSBA convened a panel of private economists to discuss California's economy and the impact of the Reagan administration's fiscal and monetary policies on California. Panelists were: Tapan Monroe from Pacific Gas & Electric Company, Richard Courtney from the Bank of America and Conrad Jamieson from Security Pacific Bank. This chapter contains their views and insights on our economy as of February, 1982, looking forward to 1982/83.

The Economic Outlook for 1982: Federal and State
Richard Courtney

Richard Courtney, vice president of the Bank of America and a former economics professor and researcher, recalled the widespread early optimism over President Reagan's budget-cutting and tax-cutting proposals. "What a difference a year makes," he observed.

1983 Federal budget deficit

As the nation undergoes a serious recession, unemployment and inflation, estimates are that the 1983 federal budget deficit will be at least $92 billion and perhaps as high as $120 billion. Despite some major successes for Reagan in cutting taxes and spending, the deficit is expected to climb still higher in 1984, the year that the administration had promised a balanced budget. "This is the year in which campaign rhetoric has come face-to-face with economic realities, and the realities have won again," Courtney said.

Unemployment, inflation and high interest rates have caused consumers to be cautious about spending, which in turn caused business inventories to mount and dampened economic growth.

However, the second phase of the federal tax cut and July's cost-of-living adjustments in federal entitlement programs should boost consumer spending and produce "some moderation of the inflation rate as a whole."

Courtney said one factor will be the business community's ability to adjust to slower rates of economic growth. For example, he noted that the all-important auto industry may reduce its size, while increasing its productivity through such moves as having employees work an extra half-day without pay.

Impact of Washington's 'contradictory' policies

Another area to watch is the impact of the Administration's two "contradictory" policies — the Federal Reserve Board's efforts to restrict the money supply, and an expansive economic policy including tax cuts and hefty budget deficits from increased defense spending. In combination, these will mean "a continuing stop-and-go economy," Courtney predicted.

He opined that the Reserve Board's policy is the "more sound course," as opposed to the "quick fixes" designed by the Administration's budget-makers. "What we need now is consistency," he said.

Courtney's preference would be to reduce defense spending, locate other budget cuts and delay or eliminate the tax cut scheduled for 1983.

Tapan Monroe

PG&E's Monroe said eliminating the tax cut might destroy the credibility of Reagan's supply-side economics and any potential they hold for long-term improvement. When the Administration made its proposals, what it forgot to mention are "the costs that are necessary for supply-side economics to work."

Among those costs are lost jobs. Unemployment rates were 8.4 percent in the last quarter of 1981, 6.4 percent in the first quarter of 1982, and expected to be 6.8 percent, 6.6 percent and a whopping 9 percent in the

year's final three quarters. With 4-5 percent of that figure being comprised of the chronically unemployed, at 6-9 percent "you're talking about a lot of middle-class people (being out of work)."

The gross national product decreased 5.2 percent in the last quarter of 1981, fell another 8.2 percent in the first quarter of 1982, and is expected to rise just .2 percent in the second quarter. Still, a turn-around is forecast for mid-year, Monroe said.

Turn-around Forecast for Mid-year

The good news, he added, is that the rise in the Consumer Price Index is expected to fall to 7.4 percent in 1982. That's down from 10.3 percent in 1981 and 13.5 percent in 1980.

Californians have more good news; their inflation rates, and even their unemployment rates, are predicted to be lower. The reason? California's economy is more diverse, releasing pressure from areas that are especially sensitive to high interest rates. It has a lesser reliance on durable goods manufacturing, more high technology and a defense industry that may benefit from increased spending.

The state's generally benign climate, numerous markets, highly skilled labor force, and traditionally strong infrastructure also have made it attractive to investors, Monroe pointed out.

Even so, he said, the California economy won't boom if present problems in the (national) economy continue." Whether California retains its attractiveness to investors also depends on: the adequacy of energy, Southern California water and housing; the business climate; the overall state of the economy; and the ability of state and local governments to continue supplying services.

Conrad Jamieson

Drop in Education Spending

Jamieson indicated that government spending in one area — education — has dropped significantly since 1977-78 in terms of the "national norm." He defines that norm as what state and local government spending would have been in California, had it come to exactly the same amount per $1,000 of personal income as the

average for the balance of the United States. According to Jamieson, this provides a consistent adjustment for inflation, population changes, and the population's ability to pay.

In 1977-78, California was the fourth-highest taxing state in the nation, giving its citizens "a reason for grievance" in passing that year's Prop. 13, Jamieson said. But "13" was a "mighty crude weapon," he added.

Prop. 13 — impact on school revenues

It reduced the state's tax revenues by more than $25 billion over the last four years and increased school districts' dependence on non-property tax revenues from 50 percent to 81 percent of their total income. This has had a "catastrophic" impact on districts' ability to plan for the future and "rule your own destinies," Jamieson reported.

He reported that:

- While Californians' total personal income increased by 48 percent, state and local tax revenues increased by just ten percent between 1977-78 and 1980-81.
- Total tax revenue in California has remained above the national norm by 16 percent (as compared to 27 percent above the norm in 1977-78). However, it dropped from No. 4 in taxation to No. 20 in 1978-79. Preliminary figures show the state at No. 16 or 17 in 1980-81.
- In terms of spending on local schools, California was No. 39 among the states in 1979-80. For every $1,000 of personal income, its spending was $43.63, as compared to the national average of $47.91.
- For every $1,000 of personal income, the state's spending on local schools increased six percent from 1969-70 to 1977-78. In the first year of Prop. 13, it *fell* by 12.4 percent; in 1978-79, by 15.6 percent.
- The state's divergence from the national norm (for spending on local schools) was minus 7.6 percent in 1978-79 and minus ten percent in 1979-80.

Jamieson cautioned that policy-makers shouldn't necessarily look to the national norm as the optimum level. "But ... if a tax or expenditure in California is substantially above or below the national norm, it is

logical to ask: *Why* does it differ from the norm? Is the difference good or bad? What — if anything — could or should be done about it?"

Summary:

Continuing economic problems might be expected nationwide as the federal government tries to simultaneously implement two "contradictory" monetary policies. But the California economy, while partly dependent on the federal performance, is expected to weather the recession better than do other states'.

California's economic advantages

Panelists agreed that California may lose some of its advantage over other states if its tax revenue no longer can support a strong infrastructure of education, roads and other services. An inferior educational system is "a negative to luring high-quality people to the state," and could force the business community to look outside the public school system for its workers — a move that is inefficient and "leaves out a good portion of the population," commented Tapan Monroe, director of economic forecasting for the Pacific Gas and Electric Company.

Appendix A
External Factors Which Affect California's Public Schools

Changes in California's Population and Families

The U.S. Census Bureau reports from the 1980 census:

- The number of one-parent families nationwide rose from 12 percent to 19 percent between 1970 to 1980, with California near the top among the states in the proportion of single parent families.
- Families below the poverty level in California for 1979 were 8.6 percent of the population.
- California has 14.8 percent foreign-born residents, the largest of all the states.
- Of California's 23.6 million people, almost five million speak a language other than English at home.

Source: *Sacramento Bee* April 20, 1982

Television as a Force Affecting Children

In 1981 the state Department of Education conducted a study of the television viewing habits of 15,385 sixth graders and related them to their achievement in school measured by the Survey of Basic Skills.

Key findings:

- The greater the amount of time spent watching television, the lower the achievement in reading, writing and mathematics.
- For sixth grade students, 29 percent watch zero to two hours of TV per day, 37 percent watch two to four hours per day, 22 percent watch four to six hours and 13 percent watch six or more hours per day.
- When these figures are computed on a weekly basis, 53 percent of sixth graders watch television for as many hours per week as they attend school, assuming a five hour school day.

- The five most popular TV shows for sixth graders watched by over half of the sample were: Dukes of Hazzard, Happy Days, Love Boat, cartoons and Different Strokes.
- Heavy TV viewers tended to be of lower socioeconomic status, reported viewing TV later at night and doing their homework in front of the television.

Nevertheless — An Impressive Track Record

Examine some facts and statistics:

- Today's children, on average, do as well as or better on achievement tests than their parents did — if their parents were in school at all. According to a national study recently conducted by Indiana University, today's students are reading better at the 6th and 10th grades than students of 30 years ago.
- Most people in a United States survey in 1981 rated the quality of education being offered in their community schools as "good" or "very good."
- In 1950, only one in every four black children finished high school in America; today three out of four complete high school.
- In 1950, only 56 percent of white children finished high school; today about 85 percent graduate.
- In 1967, about 32 percent of 3- to 5-year olds were enrolled in a pre-school program. Ten years later, the percentage of youngsters attending pre-school was almost 50 percent, and is rising.
- One in eight school children comes from a family where a language other than English is spoken. Schools across the nation have developed programs and are meeting their special needs.

Excerpted from "Better Schools Now," a publication of the National School Boards Association, Washington D.C. Reprinted by permission.

Appendix B

Glossary of School Finance Terms[1]

Apportionments. Allocation of state or federal aid, local taxes, or other moneys among school district or other governmental units.

Appropriations. Funds set aside or budgeted by the state or local school districts for a specific time period and specific purposes.

Appropriations Limitation. See Gann Limits.

Assembly Bill 8 (1979) Chapter 282. A public finance law passed by the California legislature in July 1979, replacing AB 65 and SB 154, the Proposition 13 bailout measure. AB 8 defines the source and method of funding schools, counties, cities, and special districts; the allowable annual increases in school districts' revenue limits; the levels of support and review schedule for categorical aid programs; some sources of funds for capital outlay; and a deflator mechanism.

Assembly Bill 65 (1977) Chapter 894. A school finance law passed by the California legislature in September 1977 which was intended as a long-range solution to the Serrano-Priest court decision. The tax-rate provisions were invalidated by Proposition 13 and other provisions were restructured by subsequent legislation, particularly AB 8.

Assessed value. A valuation of 25% of the market value of land, homes or businesses set by the county assessor for property tax purposes. Market value is the cost of any newly built or purchased property or the value on March 1, 1975, of continuously owned property plus an annual increase of 2%. (See Proposition 13.)

Average daily attendance (ADA). The number of students actually present or excused for absence on each school day throughout the year, divided by the total number of school days in the school year. ADA approximates 96% of the average enrollment statewide. School district revenue limit income is based on ADA.

Average daily membership or enrollment. The average number of children who are eligible to attend schools or who do attend schools in a district. These units of measurement are alternatives for ADA in some states.

Bailout legislation SB 154, 2212, 2199, AB 2190 (1978). Emergency laws and the State Budget Act enacted by the California legislature in June and July 1978, following the passage of Proposition 13. These laws specified 1978-79 funding for schools and other local entities, replacing some of the loss of local property taxes. They have been amended by AB 8 and subsequent legislation.

Basic aid. The minimum grant of $120 per K-12 pupil guaranteed by the State Constitution. This dollar amount is part of a school district's revenue limit.

Bonded indebtedness. A district's obligation incurred by the sale of bonds to acquire school facilities. Proposition 13 allows districts to continue levying a local property tax to repay debts which were voter-approved prior to June 1978. It does not permit new bonded indebtedness.

Capital outlay. Expenditure for new schools, for the major remodeling of school buildings, or for additional equipment. In the past, money from the sale of schools had to be spent for capital outlay purposes. The law now allows such funds to be spent for deferred maintenance or for general purposes if approved by the State Allocations Board.

Categorical aid. Money from the state or federal government granted to qualifying school districts for children with special needs, such as Educationally Handicapped; for special programs, such as the School Improvement Program; or for special purposes, such as Economic Impact Aid or transportation or Urban Impact Aid. Expenditure of categorical aid is restricted to its particular purpose. The funds are granted to districts in addition to their revenue limits.

Consolidation. The combining of two or more elementary or high school disricts with adjoining borders to form a single district.

Consumer Price Index(CPI). A measure of change in the cost of living compiled by the United States Bureau of Labor Statistics. Consumer price indices are calculated regularly for the United States, California, some regions within California and selected cities. (See Gann Limits.)

COFPHE. The Capital Outlay Fund for Public Higher Education supported by revenue from oil or state-owned land. Other state oil revenues are appropriated for portable classrooms and K-12 capital outlay needs.

Cost of Education Index. A measure of the variation in costs for individual school districts of factors and materials which are beyond their control, such as utilities, gasoline and the cost of living in their geographical area.

Current Expense of Education. The general operating expenditures of a school district excluding food services, capital outlay, community services, debt repayment and tuition payments.

De Facto segregation. Racial segregation which is not intentional, that is, not due to acts of governing bodies.

De Jure segregation. Racial segregation which is intentional, that is, caused by the acts of governing bodies.

Deferred maintenance. Major repairs of buildings and equipment which have been postponed by school districts, usually due to a shortage of funds.

Deflator. A mechanism in AB 8 to reduce state funds for local entities. A state commission estimates the total state resources available by June 10 each year. If that estimate is less than a target amount specified by law, then state dollars for schools, cities and counties are automatically reduced.

Direct services. Supervision of instruction, pupil personnel and health services performed by county offices of education for small districts: elementary, high school and unified districts with less than 901, 301 and 1501 ADA respectively.

Economic Impact Aid (EIA). State categorical aid for districts with concentrations of children who are bilingual, transient or from low income families.

Excess tax revenue. Tax revenues which are greater than a governmental entity's allowable Gann appropriations limitation. The Gann Amendment requires that these funds be returned to taxpayers by revised tax rates or altered fee schedules.

Foundation program. A dollar amount per pupil used historically in revenue limit calculations. Currently used in the calculation of school district Gann limits. Property tax funds and state dollars up to the foundation program levels are counted in a school district's Gann limit. All other tax dollars received by schools are counted in the state Gann limit. Foundation program levels specified for 1978-79 were $1,241 elementary, $1,322 unified and $1,421 high school.

Gann Amendment. An initiative passed in November 1979 adding Article XIIIB to the California Constitution. It establishes limits on annual appropriations from the proceeds of taxes by the state, cities, counties, school districts and most special districts. Implementing legislation, SB 1352 (Marks), was passed in 1980.

Gann Limits. A ceiling on each year's appropriations of tax dollars by governmental entities, including school districts. Using the base year 1978-79, subsequent years' limits are adjusted for the change in California Consumer Price Index or in per capita personal income, whichever is smaller, and for the change in population income, whichever is smaller, and for the change in population (ADA for school districts). Voters may elect to increase the limit for a three-year period. (For schools, see Foundation Program.)

High expenditure districts. Districts whose revenue limit per child is greater than the state average for similar districts. High expenditure districts are allowed a smaller inflation adjustment to their revenue limits than are low expenditure districts. Most high expenditure districts were formerly called "high wealth" because their assessed value per ADA was significantly above the statewide average.

Inflation Factor. Adjustments for inflation which are prescribed by law for school district revenue limits. Different adjustments are permitted in the annual calculation of Gann limits. (See AB 8; also High/Low Expenditure Districts.)

Joint School Districts. School districts with territory in more than one county.

Leveling up. Increasing the level of per pupil expenditure statewide toward that of the higher spending districts.

Leveling down. Decreasing the level of per pupil expenditure statewide toward that of the lower spending districts.

Low expenditure districts. Districts whose revenue limit per child is less than the state average for similar districts. Low expenditure districts are allowed a larger inflation adjustment to their revenue limits than are high expenditure districts. Most low expenditure districts were formerly called "low wealth" because of their low assessed valuation per ADA. Neither "high" nor "low" refers to the family income of district residents.

Mandated costs. School district expenses which occur because of federal or state laws, decisions of state or federal courts, federal or state administrative regulations, or initiative measures. (See SB 90, 1977.)

Master Plan for Special Education (1980). California categorical program for the education of all handicapped children as enacted in SB 1870 (Rodda, 1980).

Necessary Small Schools. Elementary or high schools with less than 101 or 301 ADA, respectively.

Per capita personal income. Income before taxes of California residents as estimated by the U.S. Department of Commerce.

Proceeds of taxes. Defined in the Gann Amendment as the revenues from taxes plus regulatory licenses, user charges, and user fees to the extent that such proceeds exceed the costs reasonably borne in providing the regulation product or service.

Proposition 4 (1979). See Gann Amendment.

Proposition 13 (1978). An initiative amendment passed in June 1978 adding Article XIIIA to the California Constitution. Tax rates on secured property are restricted to no more than one percent (1%) of full cash value. (A 1% tax rate is equivalent to $4 per $100 assessed value.) The measure also defines assessed value and voting requirements to change existing or to levy new taxes. A 1980 California Supreme Court decision exempted unsecured property from the tax rate limits imposed by Proposition 13, for the 1978-79 fiscal year only.

Pupil weighting. A method of distributing money for education according to the individual characteristics of each pupil. Weights or ratios are assigned for categories of pupil need or special costs; funds are distributed according to the total number of pupil weights.

Reserves. Funds set aside in a school district budget to provide for estimated future expenditures or losses, for working capital or for other purposes.

Revenue limit. The specified amount of money a school district can collect annually for its general education program from local taxes and state aid. Revenue limits were established by SB 90 (1972). Categorical aid is granted in addition to the revenue limit.

School Improvement Program (SIP). Money granted by the state to selected schools to carry out a plan developed by the school site council for the improvement of their individual school program.

Secured property. Property which cannot be moved, such as homes and factories.

Senate Bill 90 (1977) Chapter 1135/77. A law passed by the California legislature in 1977 which allowed school districts to submit claims to the state for reimbursement for increased costs resulting from state mandates or executive orders, following the guidelines adopted by the State Board of Control.

Senate Bill 154. See Bailout Legislation.

Serrano-Priest Decision. The California Supreme Court decision made final in 1976 which declared the system of financing schools unconstitutional because it violated the Equal Protection clause of the State Constitution. The Court said that by 1980 the relative effort (tax rate) required of taxpayers for school services must be nearly the same throughout the state and that differences in annual per pupil expenditures which were due to local wealth must be less than $100.

Slippage. Savings in state school fund appropriations because of unexpected revenues raised when the assessed value of property grows at a faster rate than anticipated, allowing larger than projected amounts of local property taxes to be collected.

Squeeze. The restriction on annual inflation increases to the revenue limits based on the relative wealth of districts. (See Inflation Factor.)

Special Education. Programs to identify and meet the education needs of exceptional children, such as those with learning or physical handicaps. Federal law 94-142 requires these children, ages 3-21 years, be provided free and appropriate education. (See Master Plan for Special Education.)

Spending limits. See Gann Limits.

State Allocation Board. A regulatory agency of the state which considers local school district needs and controls

certain state-aided capital outlay and deferred maintenance programs.

STRS, PERS. The State Teachers' Retirement System and the Public Employees' Retirement System funds. State law requires school district employees, school districts, and the state to contribute to the funds.

Subventions. Provision of assistance or financial support, usually from a higher governmental unit, for reimbursement of tax exemptions, such as Homeowners' Property Tax Exemptions.

Unified School District. A school district serving students kindergarten through 12th grade, that is, elementary and high school students.

Unification. Joining together of all or part of an elementary school district (K-8) and high school district (9-12) to form a new unified school district (K-12) with a single governing board.

Unionization. Joining together of two or more elementary or high school districts to form a single elementary or high school district.

Unsecured property. Moveable property such as boats and airplanes. This property is taxed at the previous year's secured property tax rate.

Urban Impact Aid (UIA). State categorical aid to 19 large, metropolitan districts which can be used for general purposes.

Variable costs. Expenses which differ from district to district due to geographical, economic, or social conditions, for example, the cost of snow plows in mountainous areas or of high insurance rates in urban areas.

Vouchers. Coupons issued by a state to individual children for admission to school and redeemed by those schools for cash from the state. A voucher system could or could not include private as well as public school students.

"Glossary of School Finance Terms," California Coalition for Fair School Finance, March 1981.

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